October 7, 2011

Dear Investors:

Over the past three weeks, I have discussed the fact that the markets were inside a Fibonacci Cluster that began in the middle of September and would end on or about October 3rd. During that same time, the S&P 500 Index peaked on September 16th at 1,216.01, hit a closing low on September 22nd at 1,129.56, then traded to a new lower high on September 27th when it closed at 1,175.38, and finally traded to a new closing low on October 3rd at 1,099.23. This weekend, the markets finished just shy of their upper boundary of the declining trend channel that started with the August sell-off. This upper boundary stopped two other rally waves over the last month and is likely to stop this week’s rally. In fact, the markets rallied right up to the upper boundary on Thursday but failed to move higher on Friday. If the technical levels are correct, then we should see the markets start their next, and probably, their final wave down over the next two to three weeks. This would bring the S&P below 1,050. If the markets break through this upper boundary, then it may signal that the October 3rd low was the bottom of the first larger degree wave down that began with the April 29th highs. We could then be in the midst of the larger degree wave up that should retrace 50%-60% of the value lost from the April highs to the October lows.

The Dow Jones Industrial Average finished the week up 189.74 points, or 1.7%, to close at 11,103.12, and is now down 4.1% for the year. The S&P 500 gained 24.04 points, or 2.1%, this week to close at 1,155.46, and is down 8.1% year-to-date. The NASDAQ Composite added 63.95 points, or 2.65%, this week to close at 2,479.35, which is down 6.5% this year.

If you are skeptical about technical market levels and indicators then you have to ask yourself why the U.S. and global markets rallied this week despite Moody’s downgrading the sovereign debt of Italy, downgrading Portuguese and United Kingdom banks, and warning that Belgium’s sovereign debt may be downgraded. It was European debt and banking concerns that were blamed for the September sell-off, so why did they not present an issue this week? The troubles in Europe are neither under control nor in any way close to being resolved. It is only a matter of time before investors choose, or are forced, to focus on these troubled countries.

The economic news was mixed once again this week. It was certainly not as encouraging as the CNBC “experts” spun it. The Commerce Department showed that August construction spending was higher than expected, but factory orders were down more than expected. The Department of Labor stated that seasonally-adjusted first-time unemployment claims were back over 400,000 last week. The big news came on Friday with the September Jobs Report. CNBC has turned this into a monthly event as they broadcast live from Washington in anticipation of the survey’s results. According to the September survey, 103,000 jobs were added to the economy last month and the July and August numbers were revised higher. However, when you look beneath the headlines, you will learn that the 103,000 increase included 45,000 striking Verizon workers that were rehired. Does that qualify as adding new jobs to the economy? I certainly do not see it as a reason to celebrate.

Rather than rely on flawed government statistics and surveys, I use what I see from my own window including my clients, friends, and family. Consider yourself if you have cut back where you used to spend thinking twice? How about your family and friends? Do you think that they have scaled back on anything or many things? You still see certain malls and restaurants crowded, but their overall volume is down. Retail promotions at stores advertise steeply discounted prices as they are willing to sell inventory at or close to a loss just to create cash flow and velocity. In simple terms, economic velocity is the rate at which money and/or goods and services move through the economy. There is no real velocity in our current economy. Consumers are spending, but not with any urgency and there is data to support this premise.

I appreciate your feedback and referrals in recent weeks. A referral is the greatest compliment and validation of our advice, expertise and service. As always, I welcome your comments and enjoy reading your feedback regarding my letters. I want to thank you again for your referrals and confidence. A referral is the greatest validation of our service and commitment.

If you have any questions, please do not hesitate to call.  Our mission is to be your trusted financial professionals dedicated to delivering a high level of service to enhance your lifestyle and provide peace of mind.

﻿﻿Best Regards,

**Vincent Pallitto, CPA, CFP®**

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